

2005 Semiannual Report

For the six-month period ended September 30, 2004

TONAMI TRANSPORTATION CO., LTD.



TONAMI

The logo features the word "TONAMI" in a bold, red, sans-serif font, oriented vertically. It is flanked by decorative vertical stripes: red stripes on the left and blue stripes on the right, both sets consisting of multiple thin lines of varying lengths.

A MESSAGE FROM THE PRESIDENT

Performance

During the interim period ended September 30, 2004, the Japanese economy continued its mild recovery driven by firm exports and private sector capital investment and signs of a rebound in personal consumption. On the other hand, the business climate remained difficult due to the continued deflationary trend and the unpredictability brought about by rising oil prices, appreciation of the yen, and a poor employment environment.

In the transportation industry, amid expectations that total annual road haulage in Japan would decline for the fifth consecutive year, Tonami's road haulage stayed in an upward trend for the second consecutive year. Despite this growth, haulage prices continued to decline, resulting in an operating environment not conducive to profitability.

Under these circumstances, Tonami focused on practical implementation of the various strategies laid out in the three-year medium-term

business plan initiated in March 2002. Specifically, the Company concentrated on marketing business proposals, such as system distribution or joint delivery systems, that meet the increasingly sophisticated needs of its customers. Moreover, to preserve sales levels, Tonami initiated measures to improve the quality of its information-system-based transportation services system and the precision of its work processes.

Despite these efforts, service sales were held to ¥49,294 million, up ¥194 million, or 0.4%, year on year. The limited sales growth was partially due to the many typhoons that hit Japan during the period and a long Obon summer holiday.

Looking at divisional performance, in our transportation business, revenues from road haulage services decreased 0.2% while revenues from removal services declined 0.3%. Revenues from rail forwarding, however, advanced 3.5%. Among other businesses, warehousing revenues rose 5.5% while revenues from other services fell 4.0%.

UNAUDITED CONSOLIDATED FINANCIAL HIGHLIGHTS

TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Six months ended September 30, 2004 and 2003

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
			2004
For the period:			
Operating revenues	¥ 63,764	¥ 58,775	\$ 574,192
Operating income	1,360	1,347	12,247
Net income	1,102	489	9,923
Per share (yen and U.S. dollars):			
Net income	¥ 12.09	¥ 5.19	\$ 0.1089
At period-end:			
Total assets	¥126,548	¥ 120,350	\$1,139,559
Total shareholders' equity	51,246	50,093	461,468

Notes: 1. U.S. dollar amounts presented herein are included solely for convenience. The rate of ¥111.05 = U.S.\$1, prevailing on September 30, 2004, has been used for the translation into U.S. dollar amounts.

2. The computation of net income per share of common stock is based on the weighted average number of shares outstanding (which represents the number of issued shares less treasury stock.) during each period.

The Company also strove to increase operating efficiency by raising productivity and cutting costs. However, because of soaring fuel prices and the introduction of a pro forma standard tax system, operating income declined to ¥500 million, down ¥351 million, or 41.1%, from the previous interim period. In contrast, net income rose ¥81 million, or 31.6%, to ¥339 million.

Among capital expenditures made during the period, the Company began construction of the Yahata Logistics Center in Kyoto, which is scheduled for completion and start up of operations in December 2004.

Tonami registered growth in consolidated revenues and profits in the interim period under review. In addition to the parent company, 28 subsidiaries and 8 affiliates were included in the scope of consolidation. Consolidated operating revenues totaled ¥63,764 million, up 8.5% from the previous interim period. Operating income amounted to ¥1,360 million, rising 1.0% year on year, while net income posted a 125.2% gain, increasing to ¥1,102 million.

Strategies and Perspectives

For the full fiscal year, the Japanese economy is expected to remain in a mild recovery phase despite a continued overall deflationary trend thanks to steady expansion in domestic demand. Nevertheless, outstanding negative factors, such as the impact of high oil prices domestically and internationally and a slowdown in the global economy make it difficult to be overly optimistic.

In addition, the continued hollowing out of Japan's manufacturing industry as they shift production overseas, restraint in public works investment, and a floundering housing market indicate haulage volumes will remain flat or decline.

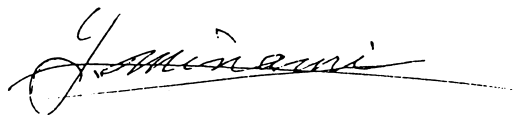
In the second half, we expect management conditions to become even more difficult as the transportation industry continues to face a multitude of issues, such as strengthening corporate social responsibility systems and coping with higher fuel prices.

Amid this environment, we are completing the final year of our three-year medium-term business plan, focusing on reaching its targets while also maintaining earnings levels and improving profitability. Working together as a Group, we are continuing with business reform.

In consideration of our earnings forecast for the current fiscal year, we plan to pay total annual cash dividends of ¥6.00 per share. We have already paid interim cash dividends of ¥3.00 per share.

In meeting the challenges of the second half, we look forward to the continued support of our shareholders.

December 2004



Yoshihiro Minami
President and Representative Director

UNAUDITED CONSOLIDATED BALANCE SHEETS
TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

As of September 30, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
ASSETS			
Current assets:			
Cash and time deposits	¥ 15,341	¥ 13,368	\$ 138,145
Marketable securities (Note 2)	1,096	1,187	9,869
Trade receivables:			
Notes and accounts	21,728	21,260	195,660
Less: allowance for doubtful accounts	(82)	(96)	(738)
Inventories	814	759	7,330
Deferred tax assets	689	631	6,204
Other current assets	2,214	2,642	19,937
Total current assets	41,800	39,751	376,407
Property and equipment (Notes 3):			
Land	41,254	39,649	371,490
Buildings and structures	24,704	21,787	222,459
Machinery and vehicles.....	3,252	3,540	29,284
Construction in progress	—	985	—
Other	2,251	625	20,270
Total property and equipment	71,461	66,586	643,503
Investments and other assets:			
Investments in securities (Notes 2 and 3)	6,755	7,317	60,828
Deferred tax assets	1,510	1,844	13,598
Consolidation difference	—	14	—
Others	5,022	4,838	45,223
Total investments and other assets	13,287	14,013	119,649
Total assets	¥126,548	¥120,350	\$1,139,559

The accompanying Notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 3)	¥ 15,900	¥ 16,336	\$ 143,179
Current portion of long-term debt (Note 3)	900	881	8,104
Current portion of bonds	—	—	—
Trade notes and accounts payable	10,375	10,093	93,426
Income taxes payable	720	930	6,484
Other current liabilities	7,233	7,420	65,133
Total current liabilities	35,128	35,660	316,326
Long-term liabilities:			
Long-term debt, less current portion (Note 3)	11,297	9,450	101,729
Deferred tax liabilities from revaluation reserve for land	4,595	5,089	41,377
Employees' severance and retirement benefits	19,771	19,261	178,037
Consolidation difference	565	—	5,088
Other long-term liabilities	3,224	140	29,032
Total long-term liabilities	39,452	33,940	355,263
Total liabilities	74,580	69,600	671,589
Minority interests	722	657	6,502
Contingent liabilities			
Shareholders' equity:			
Common stock:			
Authorised: 299,200,000 shares in 2003 299,200,000 shares in 2004			
Issued: 97,610,118 shares in 2003 97,610,118 shares in 2004	14,183	14,183	127,717
Capital surplus	14,687	14,687	132,256
Retained earnings	16,681	14,550	150,212
Revaluation reserve for land	6,768	7,494	60,946
Unrealized gain on securities	862	595	7,762
Treasury stock, at cost: 5,039,640 shares in 2003 and 6,568,899 shares in 2004	(1,935)	(1,417)	(17,425)
Total shareholders' equity	51,246	50,093	461,468
Total liabilities, minority interests, and shareholders' equity ...	¥126,548	¥120,350	\$1,139,559

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Operating revenues:			
Operating revenues	¥63,764	¥58,775	\$574,192
	63,764	58,775	574,192
Operating costs and selling, general and administrative expenses:			
Operating cost (Note 6)	59,228	54,683	533,345
Selling, general and administrative expenses (Note 6)	3,176	2,745	28,600
	62,404	57,428	561,945
Operating income	1,360	1,347	12,247
Other income and expenses:			
Interest and dividend income	122	101	1,099
Equity in earnings of associated companies	106	93	954
Loss on sells of property and equipment, net	(78)	(48)	(702)
Interest expenses	(153)	(201)	(1,378)
Others, net	413	34	3,719
	410	(21)	3,692
Income before income taxes and minority interests	1,770	1,326	15,939
Income taxes:			
Current	646	1,114	5,817
Deferred	(8)	(307)	(72)
	638	807	5,746
Minority interests	30	30	270
Net income	¥ 1,102	¥ 489	\$ 9,923

The accompanying Notes are an integral part of these statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 1,770	¥ 1,326	\$ 15,939
Depreciation and amortization	1,293	1,207	11,643
Gain on disposal of property and equipment	86	48	775
Gain on sales of investments in securities	(16)	(1)	(144)
Loss on devaluation of investments in securities	0	7	0
Loss on devaluation of golf club memberships	4	3	36
Bond issue expenses	31	86	279
Amortization of consolidation difference	(83)	(3)	(747)
Equity in earnings of associated companies	(106)	(93)	(954)
Decrease in allowance for doubtful accounts	(120)	(32)	(1,081)
(Decrease) increase in employees' severance and retirement benefits ...	(339)	226	(3,053)
Increase (decrease) in accrued bonuses to employees	56	(94)	504
Interest and dividend income	(121)	(101)	(1,090)
Interest expenses	153	200	1,378
Decrease in trade receivables	2,492	266	22,440
Increase in inventories	(238)	(28)	(2,143)
Decrease in accounts payable	(2,140)	(513)	(19,271)
(Decrease) increase in accrued consumption taxes	(23)	68	(207)
Other, net	(276)	(450)	(2,485)
Subtotal	2,423	2,122	21,819
Interest and dividends received	121	101	1,090
Interest paid	(153)	(201)	(1,378)
Income taxes paid	(886)	(1,429)	(7,978)
Net cash provided by operating activities	1,505	593	13,553
Cash flows from investing activities:			
Purchase of time deposits	(61)	(84)	(549)
Proceeds from redemption of time deposits	103	69	928
Purchase of marketable securities	—	(0)	—
Proceeds from sales of marketable securities	15	155	135
Purchase of property and equipment	(2,571)	(2,870)	(23,152)
Proceeds from sales of property and equipment	1	54	9
Purchase of investments in securities	(10)	(932)	(90)
Proceeds from sales of investments in securities	20	42	180
Proceeds from acquisition of subsidiaries resulting in changes in scope of consolidation ...	—	122	—
Investments in loans receivable	(45)	(300)	(405)
Proceeds from collection of loans receivable	68	409	612
Other, net	(98)	233	(883)
Net cash used in investing activities	(2,578)	(3,102)	(23,215)
Cash flows from financing activities:			
Net (decrease) increase in short-term loans	(163)	223	(1,468)
Proceeds from long-term debt	82	165	738
Repayment of long-term debt	(487)	(486)	(4,385)
Proceeds from issuance of bonds	2,469	7,000	22,233
Payments for issuance of bonds	—	(86)	—
Redemption of bonds	—	(7,000)	—
Purchase of treasury stock	(196)	(497)	(1,765)
Dividends paid	(275)	(472)	(2,476)
Dividends paid to minority interests	(10)	(8)	(90)
Net cash provided by (used in) financing activities	1,420	(1,161)	(12,787)
Effect of exchange rate change on cash and cash equivalents ...	—	—	—
Net increase (decrease) in cash and cash equivalents	347	(3,670)	3,125
Cash and cash equivalents at beginning of year	15,800	17,873	142,278
Cash and cash equivalents at end of year	¥16,147	¥14,203	\$145,403

The accompanying Notes are an integral part of these statements.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 TONAMI TRANSPORTATION CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting financial statements

The accompanying unaudited consolidated financial statements of Tonami Transportation Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

U.S. dollar amounts presented in the unaudited financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥111.05 = U.S.\$1, prevailing on September 30, 2004, has been used for the translation into U.S. dollar amounts in the unaudited financial statements.

2. Fair Value of Securities

No trading securities or held-to-maturity securities were held at September 30, 2004 or 2003. Securities classified as other securities are included in "marketable securities" and "investments in securities" in the accompanying unaudited consolidated balance sheets.

The components of unrealized gain or loss on marketable securities classified as other securities at September 30, 2004 and 2003 are summarized as follows:—

	Millions of yen		
	2004		
	Acquisition costs	Carrying value	Unrealized gain(loss)
Unrealized gain:			
Stocks	¥2,277	¥3,745	¥1,468
Bonds			
Corporate bonds	90	91	1
Other	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	151	134	(17)
Bonds			
Corporate bonds	25	25	(0)
Other	—	—	—
Other	60	59	(1)
Total	¥2,603	¥4,054	¥1,451

	Millions of yen		
	2003		
	Acquisition costs	Carrying value	Unrealized gain(loss)
Unrealized gain:			
Stocks	¥1,962	¥2,995	¥1,033
Bonds			
Corporate bonds	178	179	1
Other	100	100	0
Other	—	—	—
Unrealized loss:			
Stocks	453	422	(31)
Bonds			
Corporate bonds	25	25	(0)
Other	—	—	—
Other	10	8	(2)
Total	¥2,728	¥3,729	¥1,001

	Thousands of U.S. dollars		
	2004		
	Acquisition costs	Carrying value	Unrealized gain(loss)
Unrealized gain:			
Stocks	\$20,505	\$33,724	\$13,219
Bonds			
Corporate bonds	810	819	9
Other	—	—	—
Other	—	—	—
Unrealized loss:			
Stocks	1,360	1,207	(153)
Bonds			
Corporate bonds	225	225	(0)
Other	—	—	—
Other	540	531	(9)
Total	\$23,440	\$36,506	\$13,066

3. Short-term bank loans and long-term debt

(a) Short-term bank loans

Short-term bank loans as at September 30, 2004 and 2003 were as follows:—

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Secured	¥ 3,751	¥ 4,118	\$ 33,778
Unsecured	12,149	12,218	109,401

Interest rates range from 0.6% to 4.0%.

(b) Long-term debt

Long-term debt as at September 30, 2004 and 2003 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
0.89% ¥6.4 billion unsecured straight bonds due 2008	¥ 6,400	¥ 6,400	\$ 57,632
0.52% ¥0.6 billion unsecured straight bonds due 2008	600	600	5,403
0.00% 2.5 billion unsecured convertible bond type-bonds with stock acquisition rights due 2009	2,500	—	22,512
0.6%–3.6% loans from financial institutions due 2005 to 2009 and thereafter			
Secured	1,737	1,939	15,641
Unsecured	960	1,392	8,645
Total	12,197	10,331	109,833
Less: amount due within one year	901	881	8,113
	¥11,296	¥ 9,450	\$101,720

The maturity date of the ¥6.4 billion 0.89% unsecured straight bonds, issued in June 2003, is June 30, 2008.

The maturity date of the ¥0.6 billion 0.52% unsecured straight bonds, issued in June 2003, is June 30, 2008.

(c) Pledged assets

Property and equipment having a net value of ¥19,042 million (\$171,472 thousand) was pledged as collateral for short-term bank loans and long-term debt, and investment in securities

The maturity of the ¥2.5 billion 0.00% unsecured convertible bond type-bonds with stock acquisition rights, issued in July 2004, is September 30, 2009.

of ¥13 million (\$117 thousand) was pledged as collateral for short-term bank loans as at September 30, 2004.

4. Amounts per share

Net income per share has been computed using the weighted-average number of shares of common stock outstanding during each period.

In computing diluted net income per share, the weighted-average number of shares has been increased by the number of shares that would have been outstanding assuming the conversion of all convertible bond type-bonds with stock acquisition rights at the beginning of each period.

Net income has been adjusted for interest expense on such bonds, net of applicable income taxes.

Net assets per share has been computed using the number of shares of common stock outstanding at each balance sheet date.

Amounts per share of common stock for the six months ended September 30, 2004 and 2003 were as follows:—

	Yen		U.S. dollars
	2004	2003	2004
Net income per share:			
Basic	¥ 12.09	¥ 5.19	\$0.1089
Diluted	11.26	—	0.1014
Net assets per share	¥562.88	¥541.13	\$5.0687

Basis for the calculation of net income per share and diluted net income per share for the six months ended September 30, 2004 and 2003 was as follows:—

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net income available to shareholders of common stock:			
Net income	¥1,102	¥489	\$9,923
Net income not available to shareholders of common stock:	—	—	—
Appropriation of bonuses to directors and statutory auditors	—	—	—
	¥1,102	¥489	\$9,923
Weighted-average number of shares of common stock outstanding	91,132,931	94,270,521	—
Diluted net income available to shareholders of common stock:			
Adjustments to net income:	¥0	¥—	\$0
Commission for bonds	0	—	0
Incremental number of shares of common stock:	6,738	—	—
Stock acquisition rights	6,738	—	—
Common stock equivalents not included computation of diluted net income per share due to their anti-dilutive effect	—	—	—

5. Subsequent event

At a meeting held on November 12, 2004, the board of directors of the Company resolved the following interim cash dividends:—

	Millions of yen	Thousands of U.S. dollars
Dividends (¥3.00 per share)	¥273	\$2,458

6. Segment Information

The Company's business segments consist of logistics related services classified as Logistics and non-logistics services classified as Others.

A summary of segment information by industry segment for the six months ended September 30, 2004 and 2003 is as follows:—

	For the six months ended September 30, 2004				
	Millions of yen				
	Logistics	Others	Total	Eliminations (Notes 1 and 2)	Consolidated
Net Sales:					
Outside customers	¥58,925	¥4,839	¥63,764	¥ —	¥63,764
Inter segment sales	10	3,188	3,198	(3,198)	—
Total	58,935	8,027	66,962	(3,198)	63,764
Costs and expenses	57,807	7,726	65,533	(3,129)	62,404
Operating income	¥ 1,128	¥ 301	¥ 1,429	¥ (69)	¥ 1,360
	For the six months ended September 30, 2003				
	Millions of yen				
	Logistics	Others	Total	Eliminations (Notes 1 and 2)	Consolidated
Net Sales:					
Outside customers	¥54,128	¥4,647	¥58,775	¥ —	¥58,775
Inter segment sales	8	2,692	2,700	(2,700)	—
Total	54,136	7,339	61,475	(2,700)	58,775
Costs and expenses	53,008	7,058	60,066	(2,638)	57,428
Operating income	¥ 1,128	¥ 281	¥ 1,409	¥ (62)	¥ 1,347
	For the six months ended September 30, 2004				
	Thousands of U.S. dollars				
	Logistics	Others	Total	Eliminations (Notes 1 and 2)	Consolidated
Net Sales:					
Outside customers	\$530,617	\$43,575	\$574,192	\$ —	\$574,192
Inter segment sales	90	28,708	28,798	(28,798)	—
Total	530,707	72,283	602,990	(28,798)	574,192
Costs and expenses	520,549	69,573	590,122	(28,177)	561,945
Operating income	\$ 10,158	\$ 2,710	\$ 12,868	\$ (621)	\$ 12,247

Note: Operating cost and expenses included in the column "Eliminations" mainly consist of those charged by the general affairs and finance divisions of the Company, amounting to ¥97 million (\$873 thousand) and ¥95 million for the six months ended September 30, 2004 and 2003, respectively.

The two business segments mainly consist of the following services:

Logistics Road haulage, freight forwarding, warehousing, and harbor transport and customs services

Others Vehicle maintenance, casualty insurance, leasing, merchandising and commissioned sales and purchases, travel services, mail order services, travel inn, and other businesses

Neither geographical segment information nor overseas sales have been presented because none of the Company's consolidated subsidiaries are domiciled outside Japan, and the Company and its consolidated subsidiaries had no overseas sales for the six months ended September 30, 2004 and 2003.

BOARD OF DIRECTORS AND STATUTORY AUDITORS

President and Representative Director

Yoshihiro Minami

Executive Vice Presidents

Yohsuke Konishi

Katsusuke Watanuki

Senior Managing Director

Akiyoshi Kunisada

Managing Directors

Tsutomu Chujoh

Noriaki Murata

Kohichi Kishida

Iwao Hamano

Directors

Shigeki Sakamoto

Takashi Suzuki

Standing Statutory Auditors

Makoto Nagai

Nariyuki Aoki

Statutory Auditors

Shinichiro Inujima

Toshio Yaeta

Yoji Ishiguro

(As of 30th September, 2004)

CORPORATE DATA

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Phone: (03) 3664-5401

Fax: (03) 3664-5405

Date of Establishment

June 1943

Common Stock

¥14,183 million

Issued and Outstanding Shares

97,610,118 shares

Shareholders

8,307

Employees

5,491

Terminals

84

Warehouses

43

Motor Vehicles

5,591

(As of 30th September, 2004)

Consolidated Subsidiaries

Road haulage

Kanto Tonami Transportation Co., Ltd.

Gosei Tonami Transportation Co., Ltd.

Osaka Tonami Transportation Co., Ltd.

Shonan Tonami Transportation Co., Ltd.

Ibaraki Tonami Transportation Co., Ltd.

Fukui Tonami Transportation Co., Ltd.

Ishikawa Tonami Transportation Co., Ltd.

Kanagawa Tonami Transportation Co., Ltd.

Kansai Tonami Transportation Co., Ltd.

Zento Transportation Co., Ltd.

Takefu Transportation Co., Ltd.

Kawai Transportation Co., Ltd.

Chukyo Tonami Transportation Co., Ltd.

Saitama Tonami Transportation Co., Ltd.

ATS Co., Ltd.

Niigata Tonami Transportation Co., Ltd.

Warehousing

Keishin Warehousing Co., Ltd.

Ocean-freight forwarder

Nihon Unyu Co., Ltd.

Customs clearance service

Tonami Air Service Co., Ltd.

Trading Company

Tonami Trading Co., Ltd.

Sale of tires

Toyoko Gomu Hokuriku Hanbai Co., Ltd.

Travel inns

Shogawa Kanko Co., Ltd.

Sale of liquor

Toyama Jizake Hanbai Co., Ltd.

Automobile technology R&D

Tonami Automobile Technology Research
Institute Co., Ltd.

Development and sale of software

Keishin System Research Co., Ltd.

Sale of tires

Toyoko Tire Toyama shop Co., Ltd.

Sale of bed-clothes

Toyoko Shinso Co., Ltd.

Financial service

Tonami Business Service Co., Ltd.



TONAMI

TONAMI TRANSPORTATION CO., LTD.

URL:<http://www.tonami.co.jp/>